



OFFICE OF THE SHERIFF

COUNTY OF LOS ANGELES

HALL OF JUSTICE

JIM McDONNELL, SHERIFF



December 4, 2015

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Supervisors:

**ADVANCE NOTIFICATION OF POTENTIAL LOSS OF REVENUE DUE TO THE
FEDERAL COMMUNICATION COMMISSION ACTING ON ITS MANDATE
TO REFORM INMATE CALLING SERVICES**

SUBJECT

This letter provides advance notification to the Board regarding the potential loss of revenue to the Los Angeles County (County) Sheriff's Department (Department) after the Federal Communication Commission (FCC) enacted legislation that caps telephone rates for local, in-state, and interstate long-distance inmate calling. The new rates take effect six months after publication in the Federal Register. The changes would limit the Department's existing fee structure with Global Tel Link (GTL), the Inmate Calling System (ICS) provider. There may not be an immediate impact for the Fiscal Year (FY) 2015-16 Budget provided GTL can meet their payment requirement of \$15 million in revenue (\$1.25 million monthly) to the Department's Inmate Welfare Fund (IWF). If GTL is unable to meet their contractual obligation, there could be a loss of revenue of up to \$15 million annually. To date, GTL has continued to pay the Department as agreed per the requirements of the contract.

BACKGROUND

The Department entered into a five-year Inmate Telephone Contract (Contract) with telephone provider GTL on November 1, 2011. The revenues generated by the Contract are deposited into the IWF under the authority of Penal Code Section 4025. These funds are used for the welfare and benefit of the inmates, including maintenance of the County's jail facilities. The Department collects a total of approximately \$25 million

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annually from various sources including inmate telephone calls, vending and commissary services, hobby craft, and the Contract meal program. The Contract represents approximately \$15 million annually or 60 percent of the revenue generated for the fund. The IWF pays for inmate specific services and programs, such as career and technical education, personal hygiene supplies, recreation equipment, and facility maintenance in the County's jails. The IWF has proven to be critical in providing for the well-being and welfare of the inmates housed in the County's Jail System.

A First Notice ruling by the FCC was adopted in October of 2014, which required local jails, state and federal prisons, and all other agencies housing inmates that engage in revenue sharing with inmate telephone companies to modify the rates of interstate (state-to-state) telephone calls made by inmates. This impacted less than 2 percent of the call volume in the County's Jail System and did not impact the Department's revenue sharing with GTL.

A Second Further Notice of Rulemaking (SFN) by the FCC sought to eliminate revenue sharing with telephone providers all together and modify the calling rates of intrastate (within California) calls. The Department provided comments to the FCC on the SFN and strongly opposed the proposal as it would negatively impact the critical education and rehabilitation of inmates (see attached).

On October 22, 2015, the FCC issued its final ruling. While the FCC did not prohibit providers from paying site commissions, it strongly encouraged parties to move away from site commissions and urged states to take action on this issue. The FCC defined the term "site commissions" broadly and affirmed that site commissions are profits, not a cost of providing an ICS. The FCC's order capped all interstate and intrastate inmate calling rates at \$0.14 per minute for debit and prepaid calls in jails with 1,000 or more inmates. The Department's rate was \$1.05 (prepaid) or \$1.25 (collect) for the first minute and \$0.15 per minute thereafter. The FCC also capped or eliminated ancillary charges. Once the FCC's order takes effect, the total charge for a 15-minute intrastate or interstate call may not exceed \$2.10. The Department's rate for these types of 15-minute calls was \$3.25 (prepaid) or \$3.50 (collect).

Currently, the Contract with GTL provides for a \$15 million Minimum Annual Guarantee (MAG) to the Department. Should GTL not be able to meet the payment requirement, they could seek to renegotiate the Contract. A revenue loss of up to \$15 million annually would devastate the IWF and potentially require an appropriation of Net County Cost to cover the costs associated with the ongoing Contracts and committed obligations of the IWF.

In addition, many of the programs that are critical to the overall reduction in recidivism and crime in the County's jails and local communities would be negatively impacted. These services provided to the inmates have demonstrated the ability to reduce crimes

both inside the jail system and in the community. The Inmate Telephone Monitoring System (ITMS) is another vital program that is included in the current Contract. ITMS assists in gathering evidence and solving crimes by allowing investigators to monitor inmate telephone calls. The ITMS is an important tool used in keeping the jails and public safe by thwarting potential threats, escapes, narcotics distribution, and often halts witness intimidation. It is unknown at this time how the ruling will impact ITMS, including the cost of recording and storing inmate telephone calls.

FISCAL IMPACT/FINANCING

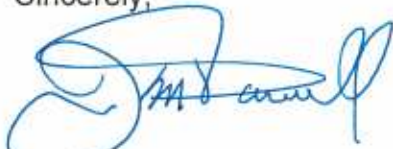
The IWF net revenue for FY 2014-15 was \$25.5 million. GTL would be responsible for the \$15 million MAG through the end of the current Contract, which expires October 31, 2016. Since the ruling does not take effect until six months after the FCC decision, the estimated revenue loss for the last two months of the FY is \$2.5 million. The Department anticipates that it can mitigate this loss for the balance of the FY. However, the Department anticipates that it will have to renegotiate the current Contract with GTL to factor in the new rate changes imposed by the FCC. This has the potential to result in a significant loss to the revenue sharing agreement with GTL. It will be necessary for the Department to re-bid the existing telecommunications Contract to include the FCC rate changes, and also to identify new areas to assist the Department in off-setting the costs associated with inmate programming and service delivery.

CONCLUSION

The Department is working on contingency plans should there be a reduction in IWF revenue, while also researching additional revenue generating programs that could lessen the impact should there be a loss of revenue to the IWF. We will continue to monitor the FCC ruling, which is being challenged in court by GTL and other inmate phone providers. The Department will report to the Board any further action related to the FCC's ruling.

Should you have any questions, please contact Chief David Fender at (213) 893-5888 or Assistant Division Director Karen Dalton at (323) 526-5250, Custody Division, Specialized Programs.

Sincerely,



JIM McDONNELL
SHERIFF